



County of Los Angeles
CHIEF ADMINISTRATIVE OFFICE

713 KENNETH HAHN HALL OF ADMINISTRATION • LOS ANGELES, CALIFORNIA 90012
(213) 974-1101
<http://cao.co.la.ca.us>

DAVID E. JANSSEN
Chief Administrative Officer

Board of Supervisors
GLORIA MOLINA
First District

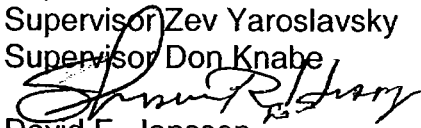
YVONNE B. BURKE
Second District

ZEV YAROSLAVSKY
Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

February 7, 2006

To: Mayor Michael D. Antonovich
Supervisor Gloria Molina
Supervisor Yvonne B. Burke
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
From: 
David E. Janssen
Chief Administrative Officer

WASHINGTON, D.C. UPDATE

PRESIDENT'S PROPOSED FEDERAL FISCAL YEAR 2007 BUDGET

On February 6, 2006, President Bush released his proposed \$2.77 trillion budget for Federal Fiscal Year (FFY) 2007, which begins on October 1, 2006. The Administration projects a FFY 2007 budget deficit of \$354 billion, compared to a projected deficit of \$423 billion in FFY 2006 and an actual deficit of \$318 billion in FFY 2005. The short-term deficits are due largely to increased outlays for the Iraq war and hurricane relief. The proposed budget includes spending cuts that would reduce the deficit in half to \$208 billion by FFY 2009.

The President is requesting \$870.7 billion in overall discretionary budget authority in FFY 2007, an increase of \$27.4 billion over FFY 2006. The Department of Defense would receive an increase of \$28.5 billion (not counting \$50 billion in emergency funding for the global war on terrorism) and the Department of Homeland Security would receive an increase of \$1 billion. All other discretionary spending would decrease from \$400.4 billion in FFY 2006 to \$398.3 billion in FFY 2007. The President also proposes to reduce mandatory (entitlement) spending by \$65 billion over five years of which roughly \$36 billion would come from Medicare.

Major Budget Reduction Proposals

The President's proposed budget would save \$15 billion in FFY 2007 by eliminating or significantly reducing 141 discretionary programs, including many grants to state and local governments. The programs, which are proposed for elimination include the following which also were proposed for elimination last year: State Criminal Alien Assistance Program; State and Local Law Enforcement Terrorism Prevention; Community-Oriented Policing Services (COPS) Interoperability Communications; Staffing for Adequate Fire and Emergency Response; Justice Assistance Grant; Juvenile Accountability Block Grant; Preventive Health Block Grant, and Community Services Block Grant.

Major reductions are proposed for the following discretionary programs of County interest:

- Community Development Block Grant would be reduced from \$3.711 billion to \$2.975 billion in FFY 2007;
- Overall funding for COPS would be cut from \$473 million to \$103 million in FFY 2007; and
- Social Services Block Grant funding would be cut from \$1.7 billion to \$1.2 billion.

The attached chart compares FFY 2006 funding levels with those proposed by the President for discretionary programs funded through appropriations bills.

Medicaid

Unlike last year when the President's proposed FFY 2006 budget included legislative proposals to reduce Medicaid spending by an estimated \$20 billion over five years, his proposed FFY 2007 Budget would reduce net Medicaid spending by \$1.9 billion over five years through legislation. This includes a proposal to cut Medicaid by an estimated \$1.8 billion over five years by reducing Medicaid reimbursement of states' Medicaid administrative costs associated with determining eligibility under Medicaid and the Temporary Assistance for Needy Families Block Grant.

The President also proposes to reduce Medicaid spending by an estimated \$12.2 billion over five years through administrative proposals, including a proposal to save \$3.8 billion over five years by capping Medicaid payments to government providers, such as the County, to no more than the cost of providing services to Medicaid recipients. Last year, the County successfully opposed this proposal when the

Bush Administration pursued it as a legislative proposal. The Administration also is proposing to reduce, by regulation, the maximum allowable health provider tax rate from six percent to three percent, which would save an estimated \$2.1 billion over five years. Last year, this was a legislative proposal that Congress did not enact. Similar to last year, the Administration has not released any detailed language on its Medicaid proposals, including its proposal to limit Medicaid reimbursement to government providers.

Other Budget Proposals

Other Administration budget proposals of County interest include:

State Homeland Security Grant (SHSG): The President's budget proposes to increase SHSG funding from \$545 million to \$633 million in FFY 2007. Similar to last year, the Administration also is proposing to allocate funds to states based on terrorist risks, threats, and vulnerabilities with a small state minimum (SSM) funding level of no less than 0.25 percent of total funding, which is far less than the current statutory SSM of 0.75 percent. Legislation must be enacted in order to reduce the SSM.

Urban Area Security Initiative (UASI) Grants: The President proposes to increase funding for UASI grants to high-threat urban areas from \$757 million to \$838 million in FFY 2007, which would be allocated based on terrorist risks, threats, and vulnerabilities.

Targeted Infrastructure Protection Grant: Similar to last year, the Administration proposes to consolidate grants for port security and for rail and transit security into a single targeted infrastructure protection grant, which would be funded at \$600 million.

Emergency Management Performance Grant (EMPG): The President proposes to reduce EMPG funding from \$183 million to \$170 million in FFY 2007.

Homeless Assistance Grants: The President proposes to increase Homeless Assistance Grant funding by \$209 million to \$1.536 billion in FFY 2007.

Section 8 Rental Assistance: The Administration proposes to increase funding for the Section 8 Rental Assistance Program to a level which it estimates would allow all existing rental housing assistance contracts to be renewed for another year.

Community Development Block Grant (CDBG) Reforms: The Administration also proposes reforms that would revise the CDBG allocation formula to target more funds to communities that cannot meet their own needs and that would make bonus funds

available to communities that “demonstrate the greatest progress in expanding homeownership and opportunity for their residents.”

Employment and Training: The President proposes to consolidate the Workforce Investment Act Adult, Youth, Dislocated Worker, and State Employment Service programs into a new Career Advancement Accounts Grant to states, which would be funded at \$3.413 billion in FFY 2007, a decrease of about \$620 million.

Ryan White AIDS: The Administration proposes to increase overall Ryan White AIDS funding by \$95 million for a new Domestic HIV/AIDS initiative, of which \$70 million would go to states to finance medications and treatment for those who are newly diagnosed, and \$25 million to expand outreach efforts through new HIV community action grants. The Administration also indicates that it will seek authority for the Secretary of Health and Human Services to transfer up to five percent of funding between individual Ryan White CARE Act programs.

Insurance for the Chronically Ill: The Administration requests \$500 million annually for a new competitive grant to states to implement innovative policies to promote insurance among the chronically ill. The proposed budget does not include any detailed language on either the criteria for awarding grants or the allowable use of funds.

Cover the Kids: The Administration proposes to provide \$100 million annually for new Cover the Kids grants to states, schools and community organizations to enroll children in the Medicaid and State Children’s Health Insurance Program.

State Children’s Health Insurance Program (SCHIP): The Administration indicates that it will seek legislation to enable it to redistribute unspent SCHIP funds in a more timely fashion to address shortfalls in some states in FFY 2007. The Administration has not yet released any language detailing how it would redistribute funds. However, this proposal could hurt California, which historically has had more unspent SCHIP funds than any other state.

Foster Care Flexible Funding Option: Similar to prior years, the Administration proposes to provide states with the option of receiving greater flexibility over the use of Title IV-E foster care funds in exchange for having their Federal funding capped over a five-year period.

Army Corps of Engineers: The President proposes to reduce Army Corps’ Civil Works funding to \$4.733 billion in FFY 2007, a reduction of \$596 million. Funding for current Army Corps operations and maintenance activities would be increased from \$1.97 billion in FFY 2006 to \$2.258 billion in FFY 2007 while funding for construction

activities would be cut to \$1.555 billion in FFY 2007, a reduction of \$793 million. Funding for general investigations would be cut to \$94 million in FFY 2007, a reduction of \$68 million.

Of County interest, the Army Corps is requesting \$1,460,000 for Marina del Rey dredging in its FFY 2007 operations and maintenance budget. Last year, the Army Corps did not request any funding for Marina del Rey dredging, but Congress appropriated \$900,000 for the project, as requested by Senator Feinstein and supported by Representative Harman.

Employee-Based Savings Accounts: The Administration proposes to consolidate the existing 401(k), SIMPLE 401(k), 403(b), and 457 tax-preferred employer-based savings plans into a single new plan called the Employee Retirement Savings Account (ERSA). The proposed plan would simplify its rules, and would be in effect for taxable years after December 31, 2006. While the existing plans have similar goals, they are subject to different sets of rules with respect to eligibility, contribution limits, tax treatment, and withdrawal restrictions.

The new ERSA plan would follow the existing rules for the 401(k) plan, subject to certain plan simplifications. Existing 457 plans could be renamed as an ERSA plan and "be subject to ERSA rules, or could continue to be held separately, but if held separately could not accept any new contributions after December 31, 2007, with a special transition for collectively bargained plans and plans sponsored by states and local governments." The Administration's budget materials do not explain what is meant by a "special transition."

Budget Process Reforms

The President's proposed budget also includes the following budget reforms to control spending:

- Requiring that any legislative increases in entitlement (mandatory) spending be offset by a reduction in other mandatory spending. Legislation that violates this requirement would be subject to a three-fifths point of order in the Senate. The Office of Management and Budget (OMB) would impose an across-the-board cut in mandatory spending if an overall net increase in mandatory spending were enacted during a Congressional session;
- Imposing statutory limits on discretionary spending through FFY 2011. Any appropriations bill that would cause these limits to be violated would be subject to a three-fifths point of order in the Senate. OMB would impose an

across-the-board cut in discretionary spending if overall appropriations were enacted that exceed the spending limits;

- Providing the President with line-item veto authority that is linked to deficit reduction;
- Adopting the annual budget resolution as a joint budget resolution that requires the President's signature;
- Requiring that a Continuing Resolution provide temporary funding for programs at the lower of the President's budget or the prior year's level when Congress has not enacted the annual appropriations bill. This proposal would mean that programs which would be eliminated under the President's budget, such as SCAAP, would not receive any temporary funding; and
- Replacing the current annual budget with a biennial budget.

These budget reforms would require the enactment of legislation in order to be implemented. Many of them would increase the power of the President over budget matters relative to the Congress. It also is noteworthy that the U.S. Supreme Court struck down the Line-Item Veto Act of 1996, which attempted to give the President the authority to cancel spending authority and special interest tax breaks.

Congressional Budget Process

Similar to previous years, the Administration has released neither detailed information nor legislative language on most of its major budget proposals, including Medicaid. However, what matters more is the dollar amount of budget savings that the Administration is pursuing. The next step is for the Congress to hold hearings on the budget proposals, which will be followed by Congressional action on the FFY 2007 budget resolution, which will set non-binding spending and revenue targets to guide Congressional action on fiscal legislation. FFY 2007 funding levels for discretionary programs will be set through individual appropriations bills.

For the first time since 1997, the FFY 2006 budget resolution included reconciliation instructions for committees with jurisdiction over entitlement programs to report legislation that would achieve the resolution's mandatory spending targets. Those reconciliation instructions were important because a budget reconciliation bill cannot be filibustered in the Senate. As a result, the Senate was able to pass the FFY 2006 budget reconciliation bill (S. 1932) which cut mandatory spending by nearly \$40 billion over five years by a simple majority of 51 to 50 rather than with 60 votes. Our

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Washington, D.C. advocates believe that it is unlikely that Congress will want to go through another contentious round of budget reconciliation cuts in an election year. If so, the potential risk of the President's proposed cuts in entitlement programs, such as Medicaid, is not so great. This year, Congress also will be meeting for fewer legislative days in order to allow more time for campaigning.

We will continue to keep you advised of any new developments.

Attachment

DEJ:GK
MAL:MT:cc

c: Executive Officer, Board of Supervisors
 County Counsel
 All Department Heads
 Legislative Strategist
 Local 660
 Coalition of County Unions
 California Contract Cities Association
 Independent Cities Association
 League of California Cities
 City Managers Associations
 Buddy Program Participants

PRESIDENT'S PROPOSED FEDERAL FISCAL YEAR (FFY) 2007 BUDGET
(in millions)

| PROGRAMS | Enacted 2006 | President's 2007 |
|---|-------------------------|-----------------------------|
| <u>Homeland Security</u> | | |
| State Homeland Security Grant | \$545 | \$633 |
| State and Local Law Enforcement Terrorism Prevention | 396 | 0 |
| High-Threat Urban Area Grants | 757 | 838 |
| Rail and Transit Security ¹ | 148 | 0 |
| Port Security ¹ | 173 | 0 |
| Targeted Infrastructure Protection Grant ¹ | | 600 |
| Emergency Management Performance Grants | 183 | 170 |
| Fire Act Grants | 539 | 293 |
| SAFER ² | 109 | 0 |
| <u>Justice</u> | | |
| State Criminal Alien Assistance Program | 401 | 0 |
| Justice Assistance Grant | 318 | 0 |
| Community-Oriented Policing Services (COPS) | 473 | 103 |
| DNA Initiative | 107 | 175 |
| Juvenile Justice Formula Grant | 79 | 93 |
| Juvenile Accountability Block Grant | 49 | 0 |
| Southwest Border Prosecutor Program | 30 | 30 |
| <u>Health and Human Services</u> | | |
| Bioterrorism Public Health Grants | 824 | 824 |
| HRSA Hospital Preparedness Grants | 474 | 474 |
| Ryan White AIDS Total | 2,063 | 2,158 |
| Community Health Centers | 1,782 | 1,963 |
| Family Planning | 283 | 283 |
| Preventive Health Block Grant | 99 | 0 |
| Maternal and Child Health Grant | 693 | 693 |
| Substance Abuse Block Grant | 1,759 | 1,759 |
| Mental Health Block Grant | 429 | 429 |
| Social Services Block Grant | 1,700 | 1,200 |
| Community Services Block Grant | 631 | 0 |
| Child Welfare Services | 287 | 287 |
| Independent Living | 186 | 186 |
| Promoting Safe and Stable Families | 454 | 454 |
| Child Care Development Block Grant | 2,062 | 2,062 |
| Refugee Assistance | 570 | 615 |
| Administration on Aging (AoA) Total | 1,363 | 1335 |
| AoA Family Caregivers | 162 | 160 |
| AoA Nutrition | 715 | 712 |
| AoA Supportive Services | 351 | 351 |

| PROGRAMS | Enacted 2006 | President's 2007 |
|--|-------------------------|-----------------------------|
| Labor | | |
| Adult Training ³ | 857 | 0 |
| Youth Training ³ | 940 | 0 |
| Dislocated Workers ³ | 1,181 | 0 |
| WIA Reform/Career Advancement Accounts ³ | 0 | 3,413 |
| State Employment Service ³ | 716 | 0 |
| Title-V Older Americans Employment | 433 | 388 |
| Housing and Urban Development | | |
| Community Development Block Grant (CDBG) ⁴ | 3,711 | 2,975 |
| Section 8 Tenant-Based Rental Assistance (Vouchers) | 15,418 | 15,920 |
| Section 8 Project-Based Rental Assistance (Contracts) | 5,037 | 5,676 |
| Section 8 Administrative Fees | 1,238 | 1,281 |
| Public Housing Operating Fund | 3,564 | 3,564 |
| Public Housing Capital Fund | 2,439 | 2,178 |
| Homeless Assistance Grants | 1,327 | 1,536 |
| HOME (Formula Grant) | 1,732 | 1,817 |
| Housing Opportunities for Persons with AIDS | 286 | 300 |
| American Dream Downpayment Initiative | 25 | 100 |
| Brownfields Economic Development Initiative ⁴ | 10 | 0 |
| Commerce | | |
| Economic Development Assistance | 250 | 297 |

Footnotes

- ¹ The President proposes to consolidate grants for rail and transit security and port security into a single Targeted Infrastructure Protection Grant.
- ² SAFER refers to the Staffing for Adequate Fire and Emergency Response Firefighting Program.
- ³ The President proposes to consolidate the State Employment Service, Dislocated Worker, Youth, and Adult Training Grants into a new Career Advancement Accounts Grant.
- ⁴ The President proposes to incorporate Brownfields funding into CDBG.